

# LAKE COUNTY ASSESSMENT PRACTICES SURVEY

**JANUARY 2006**

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STATE BOARD OF EQUALIZATION  
PROPERTY AND SPECIAL TAXES DEPARTMENT  
450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062  
916 324-5827 • FAX 916 323-5689  
www.boe.ca.gov

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January 20, 2006

TO COUNTY ASSESSORS:

LAKE COUNTY  
ASSESSMENT PRACTICES SURVEY

No. 2006/004

A copy of the Lake County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Douglas W. Wacker, Lake County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Lake County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from December 2004 through February 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Wacker and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:jm  
Enclosure

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## INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Lake County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Lake County Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Douglas W. Wacker, Lake County Assessor-Recorder,<sup>1</sup> elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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<sup>1</sup> This report covers only the assessment functions of his office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Lake County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Lake County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.<sup>3</sup>

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

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<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

<sup>3</sup> All Rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

## **EXECUTIVE SUMMARY**

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 2001 Lake County Assessment Practices Survey, we made 27 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 12 of the recommended changes. Four recommendations are no longer applicable: one because of a change in law, one because of a change in the assessor's program, and two because we found no resulting problems due to the assessor not implementing the recommendation. The remaining 11 recommendations were not implemented and are repeated in this report.

In the area of administration, we noted that the assessor participates in the State-County Property Tax Administration Program. Additionally, we found the appraisal staff are certified and found no problems with the assessment appeals, assessment roll changes, and exemption programs.

Several administrative components of the assessor's program need improvement:

- The assessor does not identify all property qualifying for disaster relief.
- The assessor uses outdated versions of BOE-prescribed forms and two rearranged forms that have not been approved by the BOE.

In the area of real property assessment, the assessor has effective programs for the enrollment of supplemental assessments and Timberland Production Zone property. Other programs have areas where improvement is needed:

- The assessor still does not assess all newly constructed water wells and related items.
- The assessor does not include the factored base year value on the value notice sent when a reduced value has been partially or fully restored, as required by section 619(c).
- The assessor does not use an appropriate income stream when valuing restricted vineyards and orchards, does not deduct only a charge for a return *of* the well value, and does not properly determine the supplemental assessment amount for newly developed homesites.
- The assessor does not assess taxable government-owned property at the lowest of current fair market value, factored base year value, or the restricted value.
- The assessor does not periodically review possessory interests having stated terms of possession for possible declines in value; does not assess all taxable possessory interests at the county fairgrounds; does not recognize lessor expenses when valuing taxable

possessory interests by the income approach; and does not add the present value of unpaid future contract rents to the nominal selling prices of cabins on United States Forest Service land.

- The assessor does not have adequate procedures in place for processing leasehold improvements.
- The assessor does not account for the depletion of reserves when valuing mineral rights as required by Rule 469 and does not assess geothermal property using the methods provided in Rule 473.

The assessor has effective programs for the discovery and valuation of manufactured homes, aircraft, and vessels. However, some of his existing practices in the area of personal property and fixture assessments should be revised:

- The assessor does not timely audit the books and records of professions, trades, or businesses pursuant to section 469; does not enroll the audit results for each year of a multiple-year audit; and does not obtain a signed waiver of the statute of limitations when a mandatory audit will not be performed on time.
- The assessor accepts unsigned business property statements.
- The assessor does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; does not assess all personal property in apartments; and does not classify wind machines as fixtures.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Since Lake County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Lake County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

- RECOMMENDATION 1:** Identify all property damage qualifying for disaster relief.....13
- RECOMMENDATION 2:** Revise the assessment forms program by: (1) using only the current version of BOE-prescribed forms; and (2) using only approved rearranged forms. ....17
- RECOMMENDATION 3:** Assess new construction of water wells and related items. ....21

<b>RECOMMENDATION 4:</b>	Include the factored base year value on the value notice sent when a property's full value has increased over its taxable value for the prior year as required by section 619(c).....	22
<b>RECOMMENDATION 5:</b>	Revise CLCA appraisal procedures by: (1) using an appropriate income stream when valuing restricted vineyards and orchards; (2) deducting only a charge for the return of the value of the well; and (3) issuing supplemental assessments only for the new construction associated with newly developed homesites. ....	24
<b>RECOMMENDATION 6:</b>	Assess taxable government-owned land at the lowest of current fair market value, factored base year value, or the restricted value.....	26
<b>RECOMMENDATION 7:</b>	Revise the taxable possessory interest program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; (2) assessing all taxable possessory interests at the county fairgrounds; (3) recognizing lessor expenses when valuing taxable possessory interests by the income approach; and (4) adding the present value of unpaid future contract rents to the nominal selling prices of cabins on national forest land.....	28
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<b>RECOMMENDATION 9:</b>	Improve the mineral property assessment program by: (1) adjusting the base year value of mineral property for depletion due to production as required by Rule 469; and (2) assessing geothermal property in compliance with Rule 473.....	31
<b>RECOMMENDATION 10:</b>	Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469; (2) enrolling the audit results for each year of a multiple year audit; and (3) obtaining a signed waiver of the statute of limitations when a mandatory audit will not be performed on time.....	34
<b>RECOMMENDATION 11:</b>	Accept only signed business property statements. ....	36
<b>RECOMMENDATION 12:</b>	Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> , as intended; (2) assessing all personal property in apartments; and (3) classifying wind machines as fixtures. ....	37



## **RESULTS OF 2001 SURVEY**

### ***Disaster Relief***

We recommended the assessor obtain fire reports from local fire departments to discover property eligible for disaster relief. The assessor has not implemented this recommendation. Because the problems cited in the prior recommendation remain, we reemphasize in a new recommendation the importance of discovering eligible properties.

### ***Assessment Roll Changes***

We recommended the assessor cite section 531.4 on the tax change form to ensure the county auditor-controller includes section 506 interest on escape assessments where appropriate. The assessor has not implemented this recommendation and it is repeated in this report.

### ***Exemptions***

We recommended the assessor grant only partial exemptions when property owners submit late filed church and religious exemption claims. The assessor has implemented this recommendation.

### ***New Construction***

We recommended the assessor obtain copies of water well permits from the county department of health services to discover new construction. The assessor has not fully implemented this recommendation and it is repeated in this report.

We recommended the assessor document the sources of costs used in the appraisal of new construction when using the cost approach. The assessor has implemented this recommendation.

### ***Taxable Possessory Interests***

We recommended the assessor reassess taxable possessory interests upon a change in ownership and use the appropriate net income when applying the income approach to value a taxable possessory interest. The assessor implemented these recommendations.

We recommended the assessor review private uses at the Lake County Fairgrounds to determine whether taxable possessory interests exist and add the present value of unpaid future contract rents to the nominal selling prices of possessory interests. The assessor has not implemented these recommendations and they are repeated.

### ***Taxable Government-Owned Property***

We recommended the assessor determine whether government-owned properties located outside those agencies' boundaries are assessable. While the assessor did not implement this recommendation, we found no taxable government-owned property that was not being assessed. Therefore, we will not repeat this recommendation.

### ***California Land Conservation Act Property***

We recommended the assessor annually value all California Land Conservation Act property, assess non-restricted improvements at the lower of current market value or factored base year value, enroll orchards and vineyards coming off exemption in the proper year, enroll orchards and vineyards as improvements, and utilize periodic California Land Conservation Act questionnaires to obtain current rental, expense, and compatible use income data. The assessor implemented these recommendations.

We also recommended the assessor use the appropriate income stream shape when valuing California Land Conservation Act property. The assessor has not implemented this recommendation. Therefore, we repeat this recommendation.

### ***Timberland Production Zone Property***

We recommended the assessor send annual questionnaires to Timberland Production Zone property owners to discover existing, compatible, nonexclusive uses. We found that the assessor does not send annual questionnaires, but we did not discover any compatible uses that have escaped assessment. Therefore, we are not repeating this recommendation.

### ***Mineral Property***

We recommended the assessor adjust mineral property base year values for depletion resulting from production as required by Rule 469. The assessor has not implemented this recommendation and it is repeated.

### ***Geothermal Properties***

We recommended the assessor revise procedures for assessing geothermal properties pursuant to Rule 473. We repeat this recommendation because the assessor has not implemented the recommended change.

### ***Audit Program***

We recommended the assessor hire at least one additional auditor-appraiser to help with the mandatory audit workload. The assessor implemented this recommendation.

We recommended the assessor timely complete all mandatory audits. We repeat this recommendation because the assessor is still not current in his audit program.

***Business Property Statement Program***

We recommended the assessor include in the direct billing program only those accounts that have historically reported stable costs. The assessor has dropped the direct billing program. Therefore, we do not repeat the recommendation.

***Business Property Valuation***

We recommended the assessor discontinue the use of minimum valuation factors. The assessor has not implemented this recommendation. Therefore, we repeat this recommendation.

***Manufactured Homes***

We recommended the assessor classify manufactured homes as personal property and comply with section 5803(b) when enrolling the full cash value of a manufactured home upon a decline in value. The assessor has implemented these recommendations.

***Aircraft***

We recommended the assessor grant the historical exemption only upon submission of a timely claim. Due to a change in law, this recommendation no longer applies.

***Vessels***

We recommended the assessor update the market study of vessel values annually. While the assessor did not implement this recommendation, we found no resulting problems and have not repeated the recommendation.

## OVERVIEW OF LAKE COUNTY

Lake County lies in the northern part of the state about 100 miles north of San Francisco and 35 miles east of the Pacific Ocean. The county encompasses about 1,300 square miles. Lake County is bordered by the counties of Sonoma to the west, Mendocino to the west and north, Glenn to the north and east, Colusa and Yolo to the east, and Napa to the south. The county's most prominent geographical feature is Clear Lake, the largest natural freshwater lake in California. The world's largest known geothermal field is also located here. The county was chartered in 1861, and the economy has been historically based on agriculture and recreation. Lake County has a population of about 55,000, and its two incorporated cities are Lakeport and Clearlake.

The following table displays information pertinent to the 2004-05 assessment roll:

	PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<b>Secured Roll</b>	Residential	57,232	\$3,396,347,084
	Commercial/Industrial	1,944	\$548,525,873
	Agricultural	3,042	\$363,814,880
	Oil, Gas, and Mineral	158	\$199,621,837
	Other Secured	463	\$107,107,889
	Total Secured	62,839	\$4,615,417,563
<b>Unsecured Roll</b>	Personal Property & Fixtures	7,920	\$126,051,471
	<b>Total Local Assessment Roll</b>	70,759	\$4,741,469,034

The next table illustrates the growth in local assessed values over the years from 2000-01 through 2004-05:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2004-05	\$4,741,469,034	9.62%	8.3%
2003-04	\$4,325,486,213	9.02%	7.3%
2002-03	\$3,967,509,105	3.75%	7.3%
2001-02	\$3,824,052,956	7.40%	9.4%
2000-01	\$3,560,448,377		

## ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, and assessment forms.

### ***Budget and Staffing***

As shown in the following table, the assessor's office has benefited from a 23 percent budget increase over the four budget years of 2001-02 through 2004-05. The marked increase in the budget for 2002-03 was due to monies allocated on a one-time basis for an office remodel project:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>PERCENT INCREASE</b>	<b>PERMANENT STAFF</b>	<b>PTAP FUNDS RECEIVED</b>	<b>PTAP STAFF</b>
2004-05	\$1,059,982	19.48%	16.6	\$117,376	1
2003-04	\$887,196	-11.56%	16.6	\$117,376	1
2002-03	\$1,003,123	16.35%	17.6	\$117,376	2
2001-02	\$862,156	6.37%	17.6	\$117,376	2

State-County Property Tax Administration Program loan funds are included except for the budget year 2000-01; the assessor did not commence participation in the loan program until the 2001-02 budget year.

The assessor's staffing level has been fairly consistent over the same four-year period. Presently, the number of employees totals 16.6 and consists of 9 real property appraisers (including the assessor and the chief of assessment standards), 2 auditor-appraisers, 1 cadastral mapping specialist, and 4.6 support staff.

### ***State-County Property Tax Administration Program***

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.<sup>4</sup> This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county does not meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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<sup>4</sup> Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

Lake County has participated in the PTAP since the 2001-02 fiscal year. For contract year 2004-05, the assessor received a grant of \$117,376. The required base funding and staffing levels are \$747,390 and 15.6 positions, respectively. Each year, the Lake County Auditor-Controller has certified to the State Department of Finance that the assessor's reported performance was in compliance with the mandates of the program.

For the contract year 2004-05, grant monies were earmarked for funding appraisal, clerical, and support positions, overtime as needed, and enhancing the property tax administration system. More specifically, the assessor used the funds for a staff appraiser, overtime and extra help, systems/staff training, parcel mapping and maintenance, computer software (automated assessment system and building sketch), digital cameras for property record photos, replacement chairs for staff, and a new filing system for property records. The following assessor's programs have benefited from the grant program: change in ownership, new construction, supplemental assessments, declines in value, assessment appeals, and audit. All expenditures are designed to increase the long-term productivity of the assessor's office and yield added revenue for the schools that is equal to or greater than the grant amount awarded to Lake County.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. In Lake County, there are a total of eleven certified appraisers on staff, of whom eight hold advanced certificates and three have permanent appraiser's certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

### ***Assessment Appeals***

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeal process.

We reviewed activities in both the assessor's office and the county assessment appeals board as they relate to assessment appeals. The two agencies must have a good working relationship in order to make the entire appeals process effective and efficient, particularly in the case of

scheduling and document processing. However, at the same time, they must maintain the statutory separation of authority and responsibility of both agencies.

In Lake County, the board of supervisors sits as the board of equalization. There are no hearing officers; instead, the local board of equalization hears all scheduled appeals.

The clerk of the board receives all applications for changed assessment. Upon receipt, the applications are reviewed, verified, and a copy is forwarded to the assessor's office. The chief of assessment standards reviews the appraisal and contacts the applicant. After discussion, if the applicant decides to withdraw the appeal or agrees to a stipulated value, the chief drafts a letter to the applicant outlining the agreement. If no agreement can be reached between the assessor and the applicant, the clerk of the board schedules the appeal for hearing.

The following table illustrates the number of applications for changed assessment received and processed from 2000-01 through 2004-05:

	FISCAL YEAR				
APPEALS	2004-05	2003-04	2002-03	2001-02	2000-01
<b>Total Appeals:</b>					
Applications Received	20	17	33	35	65
Carried Over	8	19	32	30	2
<b>Total</b>	<b>28</b>	<b>36</b>	<b>65</b>	<b>65</b>	<b>67</b>
<b>Resolution:</b>					
Denied-lack of appearance			6		2
Hearing-denied					
Hearing-reduced			3	3	2
Hearing-increased					
Hearing-upheld					
Invalid					1
Stipulation	1		4		
Withdrawn	7	27	30	29	31
Other					
Disposition unknown		1	3	1	1
<b>Total</b>	<b>8</b>	<b>28</b>	<b>46</b>	<b>33</b>	<b>37</b>
<b>Carried over to next year</b>	<b>20</b>	<b>8</b>	<b>19</b>	<b>32</b>	<b>30</b>

We reviewed the assessor's preparation for two prior assessment appeals. We found that the assessor competently administers the assessment appeals program.

**Disaster Relief**

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

The Lake County Board of Supervisors last updated the county's disaster relief ordinance on April 27, 2004, with an effective date of May 27, 2004. However, the assessor has reflected the 2001 legislative amendments to section 170 in his calamity application and appraisal worksheet forms since January 1, 2002, the effective date of these revisions.

In our 2001 survey, we recommended that the assessor obtain fire reports from local fire departments in order to identify property eligible for disaster relief. The assessor has not implemented this recommendation. Instead, he relies primarily on newspaper accounts of area fires to identify properties eligible for disaster relief. In addition, since property owners often obtain building permits to repair fire damage, the assessor learns of qualifying events when he receives copies of such permits.

The assessor's discovery methods continue to be inadequate. Therefore, we re-emphasize the importance of identifying property that would qualify for disaster relief.

**RECOMMENDATION 1:** Identify all property damage qualifying for disaster relief.

There are nine county fire protection districts serving Lake County. We found that several potentially qualifying fire events in one district were not investigated by the assessor. It is likely that qualifying fire incidents logged in the records of the other eight fire protection districts may also have escaped the assessor's notice.

Section 170 allows the assessor to contact the property owner upon learning of a disaster affecting his or her property. There is a period of one year after the date of the event during which the tax relief process may be initiated. If the assessor timely sent disaster relief applications to all owners of damaged property identified through a periodic inspection of fire



incident reports, he could consistently identify calamities that would qualify for tax relief under section 170. This will allow property owners to timely file claims for disaster relief.

### ***Assessment Roll Changes***

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

We found no problems with the assessment roll changes program.

### ***Exemptions***

#### **Church and Religious Exemptions**

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be nonprofit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. Although the religious exemption requires a one-time filing by the claimant, the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

In Lake County, church and religious exemption claims are processed by the chief of assessment standards, pending the training of newly hired support staff. The chief personally performs most field inspections of properties for which an exemption is claimed. Any follow-up inspections to ensure continuing eligibility are usually assigned to the appraiser responsible for the area in which the exempt property is located.

The following table presents the number of properties and the amount of assessed value exempted under church and religious exemptions for the 2000-01 through 2004-05 assessment rolls:

ROLL YEAR	NO. OF CHURCH EXEMPTIONS	EXEMPTED VALUE	NO. OF RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2004-05	4	\$209,218	81	\$18,838,224
2003-04	2	\$264,943	72	\$18,301,872
2002-03	0	0	92	\$17,363,179
2001-02	0	0	92	\$15,826,262
2000-01	0	0	91	\$15,247,101

The assessor carefully adheres to statutory filing requirements. If a claimant does not return the *Religious Exemption Change in Eligibility or Termination Notice* (Form BOE-267-SNT), the assessor may assign the appraiser responsible for the geographical area in which the claimed property is located to field inspect the property and verify continued eligibility for the religious exemption.

In our 2001 survey report, we recommended that the assessor allow only partial exemptions for late-filed church and religious exemption claims. There are only four current church exemption claims and all conformed to statutory filing requirements for the 2004-05 assessment roll. We found no first-time filings of religious exemption claims that were submitted late. Therefore, we do not repeat our prior recommendation.

Overall, the assessor maintains an effective program for administering church and religious exemptions.

### Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether

the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

In Lake County, the chief of assessment standards processes welfare exemption claims. The chief employs a BOE-suggested checklist to evaluate newly filed claims and also personally performs field inspections of properties for which the exemption is claimed.

The following table summarizes welfare exemptions granted on the local roll for the 2000-01 through 2004-05 assessment rolls:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2004-05	91	\$63,337,338
2003-04	102	\$67,865,721
2002-03	87	\$46,849,748
2001-02	89	\$47,308,691
2000-01	88	\$52,795,118

We reviewed a variety of welfare exemption claims at the assessor's office, including first-time filings, denied claims, and late filings. Some of the specific property types we reviewed included hospitals; reasonably necessary staff housing, including parsonages; land conservation organizations; rental housing for low-income, handicapped, and elderly persons; religious retreat centers; transitional housing; churches; and senior citizen centers.

We found no problems with the assessor's welfare exemption program.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>5</sup> For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

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<sup>5</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

According to the checklists returned to the BOE by the assessor, the assessor indicated he would use 51 of the BOE-prescribed forms for the 2004 lien date. The checklists were received by the BOE timely and none of the forms returned were rearranged. With the exception of three forms, final prints of the BOE-prescribed forms to be used by the assessor were received timely.

**RECOMMENDATION 2:** Revise the assessment forms program by: (1) using only the current version of BOE-prescribed forms; and (2) using only approved rearranged forms.

**Use only the current version of BOE-prescribed forms.**

We found that the assessor uses four outdated forms that are not the version indicated on the 2004 form checklist that he submitted to the BOE. They are: *Claim for Intercounty Transfer of Base-Year Value From Principal Residence Damaged or Destroyed in a Governor-Declared Disaster to Replacement Property* (Form BOE-65-PT); *Claim for Homeowners' Property Tax Exemption* (Form BOE-266-CD); *Preliminary Change of Ownership Report* (Form BOE-502-A); and *Alternate Schedule A for Bank, Insurance Company, or Financial Corporation Fixtures* (Form BOE-571-LA).

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. All BOE-prescribed forms are reviewed and updated on an annual basis, and a checklist of current forms is sent to assessors. Outdated BOE-prescribed forms should not be used, as they could provide incorrect information or be misleading to the property owner.

**Use only approved rearranged forms.**

We found that two forms in use by the assessor are not the same forms submitted by the assessor as final prints in October 2003. Those forms are the *Business Property Statement* (Form BOE-571-L) and the *Agricultural Property Statement* (Form BOE-571-F). The assessor submitted prototypes of these forms as examples of the forms that he would be using for 2004. However, the assessor is using rearranged forms.

The BOE, after consultation with the California Assessors' Association, prescribes the property statements to be used each year. In completing, signing, and submitting the annual checklist of BOE-prescribed property statements and in lieu tax forms, the assessor agrees to use exact copies of the forms.

## ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable government-owned property, and property in Timberland Production Zones.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

### ***Change in Ownership***

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

### **Discovery, Document Processing, and Valuation**

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other documents recorded with the county recorder. In Lake County, the assessor is also the county recorder. Thus, coordination between recorder and assessor office functions for document processing is easily facilitated. It is required that either a Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation that transfer the ownership of real property, or a \$20 fee be added to the recording fee if a PCOR is not filed concurrently.

Deputy assessor-recorders analyze PCOR's, deeds, and other recorded documents to determine whether the recording results in a reappraisable change in ownership of real property, and if it does, the percentage of ownership transferred. The change in ownership documents are tracked in the computer system and the reappraisable event is assigned to appraisers by geographical area.

The following table summarizes the reappraisal workload generated from recorded transfer documents for assessment rolls from 2002-03 through 2004-05:

<b>ROLL YEAR</b>	<b>NUMBER OF REAPPRAISALS</b>	<b>ADDED VALUES</b>
2004-05	2,730	\$149,329,336
2003-04	2,345	\$89,916,325
2002-03	2,302	\$83,521,966

We found the assessor establishes the correct base year, establishes the base year value based on the presumption in Rule 2 that the sale price reflects the full cash value of the property, and uses reasonable appraisal techniques. He also correctly values partial interest transfers, applies the annual inflation adjustment, and enrolls supplemental assessments.

We reviewed several claims for parent-child and base year value transfer exclusions processed by the assessor. We found that the claim forms were filed timely, included the required information, and that all required signatures were present. If necessary, the assessor contacts taxpayers when more information is needed.

We also reviewed several properties located in 1911 or 1915 bond assessment districts that recently changed ownership and found that the assessor follows the presumption in section 110(b) for improvement bonds. The assessor has conducted studies that indicate that there is no difference in the selling prices of properties with or without outstanding bonds.

### Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed a number of properties on the BOE's LEOP list for Lake County and found no errors pertaining to identification or reappraisal of real property that had experienced a change in

control. We found that the assessor processes LEOP notices properly and timely reappraises all LEOP changes in control.

### **New Construction**

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.5 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.7 address these exclusions.

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from four permit-issuing agencies: Lake County Department of Health Services, Lake County Department of Community Development, and the Cities of Clearlake and Lakeport. Other sources of information for the discovery of new construction include newspaper articles, business property statements, and field canvassing.

The following table shows the assessor's workload of property with new construction over the three-year period from 2002-03 through 2004-05:

<b>ROLL YEAR</b>	<b>NO. OF PERMITS*</b>	<b>NO. OF ASSESSMENTS</b>	<b>VALUE OF NEW CONSTRUCTION</b>
2004-05	3,632	1,375	\$95,233,395
2003-04	3,400	1,265	\$68,499,791
2002-03	3,186	1,105	\$60,759,942

\* The number of permits shown include building permits issued by the Lake County Department of Community Development, the City of Lakeport, and the City of Clearlake.

Permits for wells and septic systems are issued by the Lake County Department of Health Services. The number of permits issued for the calendar year 2003 was 448 (117 for wells and 381 for septic systems). Well and septic system permit statistics for 2004 were not yet available.

In Lake County, the chief of assessment standards receives and reviews permits for new construction. Permits for maintenance items, for example, re-roofs, electrical service upgrades, and interior/remodel work for small amounts, are culled. All others are forwarded to appraisers

to perform field reviews and to estimate the market value of new construction. The permit information is entered into the assessor's computer system and into a spreadsheet used for tracking purposes.

Appraisers use BOE cost tables, the *Marshall Valuation Service* cost guide, contract costs, and miscellaneous local cost data for the valuation of new construction. Construction in progress is tracked and reviewed annually. When complete, new construction is enrolled using the date of completion or date available for use, as the event date.

In our 2001 survey report, we recommended that the assessor obtain copies of water well permits from the county department of health services to discover taxable new construction. We found that the assessor recently requested and obtained a list of well permits from the county department of health services, but that no field reviews or value analysis had been done.

**RECOMMENDATION 3:** Assess new construction of water wells and related items.

In February 2004, the assessor requested and received his first list of well permits issued by the Lake County Department of Health Services. This list included all permits issued in the calendar year 2003. The assessor did not utilize this information to assess and enroll the taxable new construction when he prepared the 2004-05 roll. We found a number of new wells that escaped assessment.

It is the duty of the county assessor to inventory and assess all taxable property within his or her jurisdiction. Section 71 provides that the assessor shall determine the new base year value for the portion of any taxable real property that has been newly constructed.

The list provided by the county department of health services included permits for the construction of new water wells and related items. Because the assessor did not utilize this list when preparing the 2004-05 roll, some new construction escaped assessment.

### ***Declines in Value***

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value.

As indicated by the following table, rising market values in Lake County in recent years have greatly reduced the number of properties enrolled at less than factored base year value (FBYV):



ROLL YEAR	NUMBER OF DECLINE-IN-VALUE PARCELS
2004-05	2,703
2003-04	3,159
2002-03	3,922
2001-02	4,601
2000-01	5,720

A substantial percentage of the properties enrolled at less than FBV on the 2004-05 assessment roll are vacant residential lots located in subdivisions that lack water, power, and street improvements, and are virtually inaccessible. The assessor periodically reviews the market values of these and other properties enrolled at less than FBV. The property appraisal files typically contain documentation to support the market value estimates. However, we noted one area for improvement in the assessor's decline-in-value program.

**RECOMMENDATION 4:** Include the factored base year value on the value notice sent when a property's full value has increased over its taxable value for the prior year as required by section 619(c).

The value notice generated by the computer system, which is mailed to the owner of a decline-in-value property due to an increase in the property's taxable value, does not include the FBV.

Section 619(c) provides that in cases where there is an increase in property value due to a decline in value being partially or fully restored, the assessor's value notification to the taxpayer must include the FBV of the property. This requirement does not apply to increases that reflect the inflation rate pursuant to subdivision (b) of section 2 of article XIII A of the California Constitution.

It is important that the assessor's value notification include all the required elements per section 619. While the notice card generated by the computer system does include the required information on assessment appeals and stipulations, it falls short of full disclosure by not including the FBV. This information is beneficial because it enhances taxpayer understanding of the decline-in-value process.

### ***Supplemental Assessments***

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire

next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor processed approximately 7,400 supplemental assessments for the 2004-05 assessment roll using an automated system. Appraisers value changes in ownership or new construction events, and then enter the assessments into the computer system, which automatically calculates the supplemental assessment amounts and generates notice letters to property owners. The notice provided by the automated system includes all of the information required by section 75.31. After sending the notices to property owners, the assessor forwards supplemental assessment information to the county auditor.

We examined several new construction and transfer events and found that the assessor appropriately processes small value and negative supplemental assessments. The assessor correctly issues two supplemental assessments for events occurring on or after January 1, but on or before May 31, and one supplemental assessment for events occurring on or after June 1 but before the succeeding January 1. Additionally, when a change in ownership or completion of new construction occurs on or after January 1, but on or before June 30, the assessor properly applies the inflation factor on the following lien date. We found no supplemental assessments processed outside of the statute of limitations set by section 75.11(d).

The assessor properly issues supplemental assessments for leasehold improvements, manufactured homes, taxable possessory interests, and Timberland Production Zone property. We did find that the assessor was inappropriately issuing supplemental assessments for newly developed homesites on California Land Conservation Act lands. See the following California Land Conservation Act section for our recommendation.

The assessor's supplemental assessment program is accurate and in compliance with all applicable provisions of law with the one exception.

### ***California Land Conservation Act Property***

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve ("Williamson Act") contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lesser of restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2004-05 assessment roll, Lake County had approximately 49,500 acres under CLCA contracts, including 385 acres in nonrenewal status. The total assessed value for CLCA land and living improvements for 2004-05 was approximately \$24,000,000.

Most of the rural property in Lake County consists of rangeland, land with fruit and nut crops, and land with vegetable crops. The bulk of the agricultural revenue generated in the county is derived from grapes, pears, walnuts, and livestock.

The valuation of CLCA property in Lake County is the responsibility of one real property appraiser. The appraiser mails CLCA questionnaires annually and uses the information received to estimate current market rental rates. The appraiser compares the restricted value, the factored base year value, and the current market value, then enrolls the lowest of the three values. Restricted values are manually calculated using the appropriate capitalization rate, including a component for property taxes and an appropriate risk component (0.5 percent for land and 3 percent for tree and vine income).

Homesites are valued in compliance with section 428. The assessor properly does not issue supplemental assessments for restricted land and living improvements.

In our 2001 survey report, we made six recommendations for improvements to the CLCA program. The assessor improved his CLCA program by implementing five of the recommendations. However, the assessor did not implement our recommendation to use the appropriate income stream when valuing CLCA property. We repeat this recommendation along with other recommended improvements for the CLCA assessment program.

**RECOMMENDATION 5:** Revise CLCA appraisal procedures by: (1) using an appropriate income stream when valuing restricted vineyards and orchards; (2) deducting only a charge for the return of the value of the well; and (3) issuing supplemental assessments only for the new construction associated with newly developed homesites.

**Use an appropriate income stream when valuing restricted vineyards and orchards.**

The assessor uses a level terminal income premise when appraising vineyards and orchards in all stages of production.

The AH 521 describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development, when production (income stream) commences and rises; (2) a period of maturity, when production remains relatively stable; and (3) a period of decline, when production drops as the improvements near the end of their economic lives.

We agree with the assessor that most vineyards and orchards in Lake County are replanted before reaching the declining stage of production. Using a level terminal income premise for the mature stage of production is appropriate. However, using a level terminal income premise

during the developmental stage of production may understate the value of the orchard or vineyard and undervalues trees and vines in early to mid-life production.

**Deduct only a charge for the return *of* the value of the well.**

The assessor properly includes wells (hole, casing, gravel pack, and affixed pipe) as a component of the land value, and the pump as a component of the improvement value. He also appropriately deducts a charge for return *on* and *of* the pump. However, the assessor incorrectly deducts from the income stream a charge for a return *on* the portion of the well classified as land prior to capitalizing the income into the value of the restricted property.

The AH 521 provides, in part, that the assessor should deduct a charge for a return *on* and *of* the value of improvements from the income stream prior to capitalizing the income into the value of the restricted property. Wells are classified as land for property tax purposes and return *on* and *of* the investment is included in the income attributable to the land. Therefore, AH 521 recommends deducting a charge for the return *of* the well from the income stream by using the sinking fund factor and allowing for a return *on* the well in the land capitalization process.

Deducting a charge for a return *on* the well results in undervaluing restricted CLCA land having irrigation wells.

**Issue supplemental assessments only for the new construction associated with newly developed homesites.**

We found that the assessor incorrectly issues supplemental assessments for the portion of restricted land that is developed into a residential site where no change in ownership or new construction of the site occurred.

AH 521 provides that when a site for a new home is created on restricted property, there is no change in ownership that would warrant a reappraisal of the site despite the fact that new construction, such as grading, has brought about a change in use. Rule 463(b)(2) defines new construction to mean and include any substantial physical alteration of land which constitutes a major rehabilitation of the land or results in a change in the way the property is used. In any instance where an alteration is substantial enough to require reappraisal due to new construction, *only* the value of the alteration shall be added to the base year value of the pre-existing land or improvements.

Therefore, only the value added by the physical alteration is assessable as new construction and subject to supplemental assessment in accordance with section 75.10.

Overassessments have resulted from supplementally assessing the homesite value assigned to the portion of restricted land that was converted into residential use.

***Taxable Government-Owned Property***

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11

provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

For the 2004-05 assessment year, the assessor enrolled 22 taxable government-owned parcels with a total assessed value of \$9,801,112. Only four parcels include taxable improvements.

In our 2001 survey report, we found several government-owned parcels that appeared to be located outside agency boundaries, and recommended that the assessor determine whether such properties were taxable. Although the assessor did not implement this recommendation, we investigated the parcels cited in the prior recommendation and determined that eight of the nine parcels were not taxable. Our research on the ninth parcel was inconclusive. Thus, we are not repeating this recommendation.

We reviewed the files of all 22 taxable government-owned parcels. All were found to be located outside their owner-agency's boundaries. We also reviewed a random sampling of properties on the assessment roll with a zero value, and found none outside their owner-agency's boundaries.

While we found no problems with the identification of taxable government-owned property or the valuation of improvements on taxable government-owned land, we found that the assessor has not been enrolling the lowest of the current fair market value, the factored base year value, or the restricted value (1967 assessed value multiplied by the appropriate BOE-announced rate) for taxable government-owned land.

**RECOMMENDATION 6:** Assess taxable government-owned land at the lowest of current fair market value, factored base year value, or the restricted value.

The assessor does not perform a three-way value comparison that includes the current fair market value, the factored base year value, and the restricted value, to determine the lowest value for enrollment purposes. Instead, he routinely enrolls the restricted value.

In 1995, the California Supreme Court held that the value limitation standard of article XIII A of the California Constitution also applies to taxable government-owned property located in counties other than Inyo and Mono. In other words, taxable government-owned property in Lake County should be assessed at the lowest of the current market value, the factored base year value, or the restricted value.

The assessor's practice of annually enrolling the restricted value for the taxable government-owned parcels, without ensuring that this is the appropriate value to be enrolled, has resulted in overassessments. For example, we analyzed taxable government-owned parcels to determine the proper assessed values. We found that the factored base year value of the parcels was lower than the restricted value. The analysis showed overassessments on the 2004-05 assessment roll totaling \$68,743, or about 32 percent, for the five parcels.

***Timberland Production Zone Property***

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435). The annual taxable value of TPZ lands is the lowest of (1) TPZ value, (2) current market value, or (3) factored base year value.

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

Lake County has 127 TPZ parcels, consisting of 17,510 acres with a 2004-05 roll value of \$2,015,567. All parcels are in the Pine-Mixed Conifer Region, and none are in nonrenewal status. The local roll contains a designation of "Timber Preserve" to identify TPZ parcels, as required by section 433.

We reviewed the property records of several TPZ parcels in Lake County. We found the assessor is using the proper site class values for timberland and is correctly including any known exclusive compatible uses in the assessment.

One real property appraiser handles the appraisal of TPZ properties. The records we reviewed contained pertinent information and showed that residences and other structures had been properly assessed in accordance with article XIII A of the California Constitution. The assessor has assessed TPZ parcels according to the BOE-prescribed values for the 2004 lien date.

***Taxable Possessory Interests***

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2004-05 assessment roll, the assessor enrolled 141 taxable possessory interests, with a total value in excess of \$39 million. The majority of these possessory interests are cabins on United States Forest Service (USFS) land.

One appraiser is responsible for the discovery and assessment of the taxable possessory interests in Lake County. The appraiser annually contacts public agencies by telephone for updated lists of tenants and lease terms related to possessory interests; however, many public agencies are uncooperative and do not provide tenant lists or lease data. The appraiser also reviews recorded leases and may contact the public agency shown as the lessor for the information. We found that the terms of possession used to establish base year values are reasonable, rents are market-derived, and appraisals are well documented.

In our 2001 survey report, we recommended that the assessor: (1) review all private uses at the county fairgrounds, (2) reassess taxable possessory interests upon a change in ownership, (3) add the present value of unpaid future contract rents to the nominal selling prices of possessory interests, and (4) use the appropriate net income when applying the income approach to value a taxable possessory interest. The assessor has not implemented the first and the third recommendations. We repeat both recommendations and add two new recommendations for improvements to the taxable possessory interest program.

**RECOMMENDATION 7:** Revise the taxable possessory interest program by:  
(1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; (2) assessing all taxable possessory interests at the county fairgrounds; (3) recognizing lessor expenses when valuing taxable possessory interests by the income approach; and (4) adding the present value of unpaid future contract rents to the nominal selling prices of cabins on national forest land.

**Periodically review all taxable possessory interests with stated terms of possession for declines in value.**

We found that, for lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of a possessory interest with a stated term of possession. Instead, the assessor enrolls the same value as the prior year as the current market value.

Section 51 requires the assessor to assess real property, including possessory interests, at the lesser of the base year value (adjusted annually for inflation by no more than 2 percent) or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of possessory interests with stated terms of possession to ensure that declines in value of possessory interests are consistently recognized. Failing to assess a possessory interest using the stated term of possession may overstate its taxable value.

**Assess all taxable possessory interests at the county fairgrounds.**

We obtained a list of tenants at the Lake County fairgrounds and a calendar listing recurring annual group events. We found that a number of concessionaires have been using the fairgrounds for several years during the annual county fair. Both the permanent and recurring tenancies on the lists we reviewed appear to constitute taxable possessory interests and should be assessed accordingly.

Since Lake County does not have an ordinance for exempting low-value fairground possessory interests under section 155.20, the assessor should enroll all possessory interests at the fairground. By not assessing these possessory interests, the assessor has allowed taxable property to escape assessment.

**Recognize lessor expenses when valuing taxable possessory interests by the income approach.**

When utilizing the income approach to value possessory interests, the assessor capitalizes the contract rent paid by the lessee, without making any deductions for management and other potential operating expenses incurred by the public lessor. In many cases, however, the leases or rent agreements specifically provide that the public entity must assume property-related expenses such as exterior maintenance, utilities, and fire insurance.

Rule 21(e)(3)(C) prescribes the use of the direct income approach when valuing Post-De Luz taxable possessory interests. In the direct approach, the amount to be capitalized is the future net income that the possessory interest is capable of generating under typical management during the anticipated term of possession. Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other operating expenses incurred by the lessor. The written agreement creating the possessory interest should be reviewed to determine which specific expenses pertain, while typical expenses such as management charges should also be recognized.

Failing to recognize appropriate lessor expenses may overstate the full cash value of a taxable possessory interest.

**Add the present value of unpaid future contract rents to the nominal selling prices of cabins on national forest land.**

We reviewed several taxable possessory interests in cabins on USFS land that had been revalued due to a change in ownership. In each case, the reported purchase price was enrolled as the taxable value, with no adjustment for the present value of unpaid future contract rents.

The direct method of the comparative sales approach is one of the generally accepted methods for valuing a taxable possessory interest and is described in Rule 21(e)(1)(A). In this method, an important adjustment to the reported purchase price is the addition of the present value of the unpaid future contract rent over the remaining term of possession.

When determining the value of a possessory interest, appraisers must include the total consideration paid for that possessory interest. To reach that amount, the appraiser must include the future rents that the purchaser has an obligation to pay. If this adjustment is not made, the value indicator will reflect only the buyer's equity value in the taxable possessory interest and not the full value of the taxable possessory interest, resulting in an underassessment.



## ***Leasehold Improvements***

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on Form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

We found the assessor does not have adequate procedures for coordination between the real property and business property divisions of his office. As a result, property has escaped assessment.

**RECOMMENDATION 8:** Ensure that all leasehold improvements are assessed.

We found leasehold improvements that escaped assessment. We also found several structural items where the assessed value was significantly less than the cost reported.

In Lake County, the auditor-appraiser forwards copies of business property statements listing new leasehold improvements (structures) to a real property appraiser. However, the process includes no feedback from the appraiser to the auditor-appraiser, and property has escaped assessment. These errors might have been avoided if there were formal procedures for the assessment of leasehold improvements that include a coordination of duties between the auditor-appraiser and the appraiser.

## ***Water Company Property***

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

### **Water Companies Regulated by the California Public Utilities Commission (CPUC)**

Private water companies are privately owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit annual reports to the CPUC.

The CPUC website indicates there are four regulated water companies operating in Lake County. Our investigation revealed that the BOE's Valuation Division assesses one company. For another, no such business entity could be found in Lake County. The other two are actually the only locally assessable CPUC-regulated water companies in the county. We found that the property owned by these companies is being assessed properly.

### **Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water at cost primarily for its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock.

The list of water companies provided by the assessor comprised several types of water companies, including exempt companies as well as locally and state assessed companies. We found no problems with the assessment of these water companies' properties.

### ***Mineral Property***

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral property. They are: Rule 468, Oil and Gas Producing Properties; Rule 469, Mining Properties; and Rule 473, Geothermal Properties. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

In our 2001 survey report, we recommended that the assessor adjust the property base year values of mineral properties for depletion resulting from production as required by Rule 469. We also recommended that the assessor revise procedures for assessing geothermal properties pursuant to Rule 473. The assessor did not implement these recommendations and they are repeated here.

**RECOMMENDATION 9:** Improve the mineral property assessment program by:  
(1) adjusting the base year value of mineral property for depletion due to production as required by Rule 469; and  
(2) assessing geothermal property in compliance with Rule 473.

### **Adjust the base year value of mineral property for depletion due to production as required by Rule 469.**

The assessor estimates the assessed value of mineral rights through the royalty method. This method does not account for the depletion of reserves and is not consistent with the requirements of Rule 469.

"Mining rights" or "mineral rights" are rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property rights associated with these rights.

Rule 469 provides that rights to enter in or upon the land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. Subsection (e)(2)(A)(4) of Rule 469 provides that when estimating the base year value or the adjusted base year value of mineral rights, an adjustment must be made to account for depletion of the mineral resource. To estimate the value of the reserves removed, the assessor shall multiply the quantity of reserves removed in the prior year by the weighted average value per unit of minerals for all prior base years. The adjusted base year value of the reserves remaining from prior years is found by subtracting the value of the removed reserves from the prior year's adjusted base year value.

Failure to account for the depletion of reserves could result in the overassessment of the mineral rights.

### **Assess geothermal property in compliance with Rule 473.**

The assessor uses a 10 percent royalty to value geothermal mineral rights. This method only addresses the lessor's interest in a geothermal property and does not address the leasehold mineral rights value.

The assessment of geothermal property involves the valuation of the rights to explore, develop, and produce useful geothermal energy, and the real property associated with these rights. Rule 473 provides that the rights to enter in or upon the land for the purpose of exploration, development, or production of proved reserves are taxable real property interests to the extent that they individually or collectively have ascertainable value. Pursuant to subsection (e)(4)(A) of Rule 473, the value of geothermal mineral rights shall be calculated by determining the current market value of the appraisal unit and deducting the value of components other than the proved reserves. The residual value is allocated as the current market value of the proved reserves. The proved reserves are then adjusted for depletion and additions.

Since many geothermal resource owners in the county have acquired the generators that were once supplied by their geothermal resources, it is now possible to make a value determination of the entire property and then allocate that value to the various components. The assessor does this, but attempts to determine the value of the plant using a residual value rather than the value of the mineral rights.

The assessor's method leads to potential errors related to the allocation of values among the components and should not affect the total enrolled value of the geothermal property.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

In this section of the survey report, we review the assessor's audit, business property statement processing, and business equipment valuation programs, and the assessment of manufactured homes, aircraft, and vessels.

As of February 2005, the assessor's staff assigned to the assessment of personal property and fixtures consisted of two auditor-appraisers.

### ***Audit Program***

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

In our 2001 survey report, we recommended that the assessor timely complete all mandatory audits. We found a backlog of mandatory audits during this survey, and, therefore, repeat this recommendation. Several additional recommendations are made to improve the audit program.

**RECOMMENDATION 10:** Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469; (2) enrolling the audit results for each year of a multiple year audit; and (3) obtaining a signed waiver of the statute of limitations when a mandatory audit will not be performed on time.

**Audit the books and records of professions, trades, or businesses pursuant to section 469.**

For the 2004-05 fiscal year, the assessor had a workload of 18 mandatory audits. He did not complete any mandatory audits that year. We found four audits in process, but not completed. The remaining 14 accounts were not yet scheduled for audit.

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more. The assessor requests information for the audit through the mail; however, he does not act on the information upon receipt. Instead, the information is placed in the taxpayer's file with no review.

The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potentially large assessment errors. By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to permanently escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

**Enroll the audit results for each year of a multiple-year audit.**

In a multiple-year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in others. The assessor's current practice is to make no assessment roll change when the net results of differences, from one year to the next, are immaterial or minimal. This practice does not conform to the provisions of section 533. This section provides that if the assessments are made as a result of an audit, the tax refunds resulting from the incorrect assessments shall be an offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit.

There is no legal provision for assessment offsets. Rather, section 533 allows the offset of tax refunds against tax liabilities, not assessments. Tax liabilities include the correct tax rate and applicable interest for the appropriate length of time. To accurately determine the correct tax liability, the proposed tax liabilities and the tax returns must be made in the correct year.

**Obtain a signed waiver of the statute of limitations when a mandatory audit will not be performed on time.**

The assessor does not request a waiver of the statute of limitations from a taxpayer when he anticipates an audit will not be completed in a timely manner. There were no signed waivers on file for any account we reviewed.

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. Pursuant to section 532.1, if the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to extend the time for making the assessment.

Without a waiver, the assessor is possibly losing some revenue due to escape assessments that are precluded from assessment by the statute of limitations.

***Business Property Statement Program***

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

There are two auditor-appraisers in the Lake County Assessor's Office. They carry out all business property statement processing functions. We found that the auditor-appraisers check for full disclosure of property based on the taxpayer's prior property statement and also confirm reporting of leased equipment. In Lake County, the business property statements cover a wide variety of property types, including commercial, industrial, agricultural, vessels, and aircraft.

The assessor processed business property statements, excluding vessels and aircraft, for the 2004-05 assessment year, as shown in the following table:

	SECURED		UNSECURED		TOTAL	
CATEGORY	NO. ITEMS	ASSESSED VALUE	NO. ITEMS	ASSESSED VALUE	NO. ITEMS	ASSESSED VALUE
Commercial	455	\$48,938,162	991	\$40,347,377	1,446	\$89,285,539
Agricultural	236	\$8,039,637	20	\$1,776,126	256	\$9,815,763
Apartments	17	\$144,370	2	\$740,938	19	\$885,308
Banks	4	\$135,950	11	\$816,070	15	\$952,020
Leasing			155	\$5,810,935	155	\$5,810,935
TOTAL	712	\$57,258,119	1,179	\$49,491,446	1,891	\$106,749,565

The assessor has an efficient discovery program. While taxpayer self-reporting is the principal means of detecting assessable business property, other resources are also used. These include field canvassing, reviewing fictitious business name filings, newspaper articles and advertisements, city and county business licenses, referrals from other counties, and BOE notifications. We found that the assessor employs effective methods to discover taxable personal property and fixtures.

Although the assessor allows taxpayers to submit attachments in lieu of completing business property statements, as provided by law, he does not always require the taxpayer to submit a signed copy of the business property statement.

**RECOMMENDATION 11:** Accept only signed business property statements.

We found several instances in which the assessor accepted an unsigned Form BOE-571-L. In these cases, the assessee had attached a signed substitute property statement (not a BOE-prescribed form) to the original unsigned Form BOE-571-L sent to him or her by the assessor, and had filed the entire package with the assessor. This is not consistent with the requirements of section 441.5.

Section 441.5 allows the taxpayer, in lieu of completing the property statement, to attach the required information to the property statement, as long as the information is in a format as specified by the assessor and either (1) the property statement printed by the assessor is signed and carries appropriate reference to the attached data, or (2) the business property statement is filed electronically and properly authenticated.

The result of the assessor's practice is that no one attests to the authenticity of the facts reported on the statement or acknowledges any associated penalty for failure to comply with the filing requirements.

## ***Business Equipment Valuation***

### **Commercial, Industrial, and Agricultural Equipment**

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. Percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over its service life. Both types of factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

In our 2001 survey report, we recommended the assessor discontinue the use of minimum valuation factors. The assessor currently uses the price indices and percent good factors as recommended by the California Assessors' Association. Since the assessor has not implemented our recommendation, we repeat it here. In addition, we found three other areas of concern with the assessor's procedures for valuing business property.

**RECOMMENDATION 12:** Revise business equipment valuation procedures by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; (2) assessing all personal property in apartments; and (3) classifying wind machines as fixtures.

### **Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.**

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in the AH 581 with one exception. The CAA recommends that the historical cost of specific types of equipment (for example, pagers, facsimile equipment, and photocopiers) not be trended to reflect changes in the price index.

The assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA, is not supported by a study.



**Assess all personal property in apartments.**

For the 2004 assessment roll, there were 16 apartment complexes assessed and enrolled in Lake County. Nine of the 16 accounts have personal property assessments, while the remaining seven have assessments for land and improvements only. It is possible that all 16 complexes have some assessable personal property.

Many apartment complexes have amenities that include other furniture and equipment (e.g., office furniture and equipment, laundry equipment, and pool and common area equipment). This equipment may have escaped assessment. If equipment is included in a sale and the sale price is enrolled with no allocation made for the equipment, then the equipment could be overassessed in subsequent years. The assessor should identify and assess any personal property in these units.

**Classify wind machines as fixtures.**

The Lake County Assessor assesses and enrolls wind machines as structures instead of as fixtures.

Subdivision (e)(10) of Rule 122.5 provides that a wind machine that is physically annexed to the realty with the intent that it be annexed indefinitely is properly classified as real property and assessed as a fixture. As a fixture, wind machines and other machinery and equipment classified as improvements constitute a separate appraisal unit for decline-in-value purposes as provided in Rule 461(e).

Classifying wind machines as structures will most likely result in overassessments. Wind machines, if classified as a structure, are part of an appraisal unit that also includes land and other structures. Upon a change in ownership or completion of new construction, the base year value of the land and structures is established and the values are subsequently adjusted annually by the inflation factor. The assessed value of land and structures is the factored base year value if that value is lower than the current market value, which is usually the case. However, a wind machine classified as a fixture is treated as a separate appraisal unit. Due to depreciation, the current market value of a fixture is typically less than the factored base year value. Therefore, a wind machine that should be classified as a fixture will be overassessed if it is misclassified as a structure.

**Computer Valuation**

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 6: Computer Valuation Factors").

We found that the assessor properly uses the composite valuation factors provided by the BOE when valuing nonproduction computers and related equipment.

***Manufactured Homes***

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800

through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

For the 2004-05 assessment roll, the Lake County Assessor assessed and enrolled 1,110 manufactured homes located in rental parks on the secured roll at a total assessed value of more than \$23 million. The homes were appropriately classified as personal property.

The primary method of discovering manufactured homes is through the State Department of Housing and Community Development's (HCD) listing of transfers, voluntary conversions, and new registrations. This method is augmented by manufactured home dealer reports of sales, building permits, referrals from other counties, and recorded certificates of occupancy. Sales prices, the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide*, local cost data, and BOE unit cost factors are considered during the valuation analysis. Additionally, consideration is given to site influence and accessories. Manufactured homes situated in parks are reviewed annually to determine if there has been a decline in value. When applicable, supplemental assessments are processed.

We found no problems with the manufactured home assessment program.

## **Aircraft**

### **General Aircraft**

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The BOE further directed in Letter To Assessors 97/03, dated January 31, 1997, that listed retail values be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. Additionally, variances from the values published in the recommended guide, other than the 10 percent reduction, must be based on reasonable evidence and should be well documented.

Lake County has one airport and one gliderport. There are no commercial aircraft or air taxis operating in the county. The 2004-05 assessment roll included 87 general aircraft with assessed values totaling \$2,655,300.

The assessor mails annual aircraft statements to owners of all aircraft with situs in the county. The statement has a filing deadline of April 1 and the assessor imposes a 10 percent penalty for failure to file or late filing.

The assessor uses the required primary value guide, *Bluebook*, to appraise aircraft. In the 15 aircraft files we reviewed, we found the appraisals and documentation to be in good order. The assessor adjusted the appraisals downward by 10 percent, as required. Additionally, adjustments were made for sales tax, interior and exterior condition, engine hours, airframe hours, and variances from listed value guide systems and equipment.

We commend the assessor for following the BOE-recommended aircraft appraisal procedures and for considering additional evidence to produce accurate aircraft assessments.

### Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The assessor granted seven historical aircraft exemptions for the 2004-05 assessment roll with a total exempted value of \$269,400.

We reviewed the exemptions for aircraft of historical significance and concluded that the assessor is requiring the aircraft owner to meet all of the conditions of exemption, including confirmation of public displays.

### Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

The Lake County Assessor assessed 6,509 vessels on the 2004-05 assessment roll with a total assessed value of \$32,296,600. All vessels with situs in the county are pleasure craft; there are no known documented vessels eligible for assessment under section 227. The assessor's primary discovery sources are the DMV database and intercounty referrals.

An auditor-appraiser II is responsible for the appraisal and assessment of all vessels in Lake County. Appraisal estimates for new vessels are based on values listed in the *Anderson and Bugg*

*Outboard Service* (ABOS) valuation guide, with adjustments made for sales tax, vessel condition, motor and motor condition, accessories, and trailers, when appropriate.

We reviewed the assessor's records of several new vessels and found that they were properly appraised at market value. We also reviewed several used vessel assessments and found that the values enrolled reasonably approximate market value.

## **APPENDICES**

### ***A. County Property Tax Division Survey Group***

#### ***Lake County***

##### ***Chief, County Property Tax Division***

Mickie Stuckey

##### ***Survey Program Director:***

Arnold Fong

Principal Property Appraiser

##### ***Survey Team Supervisor:***

Peter Gaffney

Supervising Property Appraiser

##### ***Survey Team Leader:***

Sally Boeck

Senior Specialist Property Appraiser

##### ***Survey Team:***

James McCarthy  
Zella Cunningham  
Wes Hill  
Lloyd Allred  
Ancil Aydelott  
Manny Garcia

Senior Petroleum and Mining Appraisal Engineer  
Associate Property Appraiser  
Associate Property Appraiser  
Associate Property Auditor-Appraiser  
Associate Property Auditor-Appraiser  
Associate Property Auditor-Appraiser

## ***B. Relevant Statutes and Regulations***

### **Government Code**

#### **15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

#### **15641. Audit of Records; Appraisal Data Not Public.**

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other

duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

**15645. Survey report; final survey report; assessor's report.**

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.**

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.



**Revenue and Taxation Code****75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
  - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
  - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

***Title 18, California Code of Regulations***

**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Lake County Assessor's response begins on the next page. The BOE has no comments on the response.



**COUNTY OF LAKE**  
**COUNTY ASSESSOR-RECORDER**

Courthouse - 255 N. Forbes Street  
Lakeport, California 95453  
Assessor's Office 707 / 263-2302  
Recorder's Office 707 / 263-2293  
Fax 707 / 263-3703

**DOUGLAS W. WACKER**  
**ASSESSOR-RECORDER**

December 7, 2005

Ms. Mickie Stuckey, Chief  
County Property Tax Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Dear Mickie:

In accordance with Government Code Section 15645 of the California Government Code, I am providing the following response to the State Board of Equalization's 2005 Assessment Practices Survey of Lake County.

I wish to express my appreciation to the BOE survey team under the leadership of Sally Boeck and Peter Gaffney for the professional and courteous manner in which they performed their duties. I welcome and appreciate their suggestions for improvement and constructive comments regarding our processes and practices.

I would like to give special thanks to my entire staff for their dedication, professionalism and commitment to serving the citizens of Lake County. Through their hard work we have made some significant improvements to our property assessment program since our last survey in 2001.

Sincerely,

/s/ Douglas Wacker

Douglas W. Wacker  
Lake County Assessor-Recorder

**LAKE COUNTY ASSESSOR'S RESPONSE  
TO 2005 ASSESSMENT PRACTICES SURVEY**

**Recommendation 1:** Identify all property damage qualifying for disaster relief.

We will again attempt to get compliance from the local fire districts. Attempts have been made in prior years with limited or no success. In spite of this, I feel that our overall program is efficient and meets the needs of the taxpayers.

**Recommendation 2:** Revise the assessment forms program by: (1) using only current version of BOE-prescribed forms, and (2) using only approved rearranged forms.

1) The four forms cited as being out of date were simply left over and have now been either updated or replaced with the most current verbiage. 2) We have since submitted our rearranged forms timely and will be using them as approved.

**Recommendation 3:** Assess new construction of water wells and related items.

We shall make an attempt to keep current on the timely assessment of wells and related items as staffing and priorities allow.

**Recommendation 4:** Include the factored base year value on the notice sent when a property's full value has increased over its taxable value for the prior year as required by section 619(c).

We have discussed this with IT and will comply.

**Recommendation 5:** Revise CLCA appraisal procedures by: (1) using an appropriate income stream when valuing restricted vineyards and orchards, (2) deducting only a charge for the return of the value of the well, and (3) issuing supplemental assessments only for the new construction associated with newly developed home sites.

1) We will review and determine on a case by case basis, the proper income stream to use when valuing restricted vineyards and orchards. 2) We will comply. 3) We have revised our methodology of appraising home sites and the possible supplemental assessment of the same.

**Recommendation 6:** Assess taxable government-owned land at the lowest of current fair market value, factored base year value, or the restricted value.

We will comply.

**Recommendation 7:** Revise the taxable possessory interest program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (2) assessing all taxable possessory interests at the county fairgrounds, (3) recognizing lessor expenses when valuing taxable possessory interests by the income approach, and (4) adding the present value of unpaid future contract rents to the nominal selling prices of cabins on national forest land.

1) A data base has been set up which will allow the appraiser to track the possessory interests. 2) We will again attempt to get information regarding all fair grounds P.I.'s. To the best of our knowledge, all fair grounds possessory interests are currently being assessed, with the exception of the carnival. 3) We will comply and include lessor's expenses. 4) In reviewing the few sales

which have occurred for cabins on national forest land, it seems that the prices paid are the same as a fee interest property.

**Recommendation 8:** Ensure that all leasehold improvements are assessed.

We have since adjusted our procedures and will now be in full compliance.

**Recommendation 9:** Improve the mineral property assessment program by: (1) adjusting the base year value of mineral property for depletion due to production as required by Rule 469, and (2) assessing geothermal property in compliance with Rule 473.

1) Historically, we have valued the mineral properties using a royalty approach. We have found that this has produced a valid assessment. 2) We have found that the methodology utilized for the valuation of the geothermal properties has been accurate. The total enrolled value of the property has not been questioned by industry nor has any allocation of the total.

**Recommendation 10:** Improve the audit program by: (1) auditing the books and records of professions, trades, or businesses pursuant to section 469; (2) enrolling the audit results for each year of a multiple-year audit; and (3) obtaining a signed waiver of the statute of limitations when a mandatory audit will not be performed on time.

(1,3) Our mandatory audit program is current and all signed waivers, if necessary have been obtained. (2) Although, in theory, the SBE is correct in saying the audit results should be enrolled for each year of a multiple year audit, it has been office procedure to not process roll changes that have a net value change of \$500.00 or less. This expedites the audit program and does not require the auditor to make corrections which would only be cancelled by the tax collector because they would result in a tax bill of less than \$5.00.

**Recommendation 11:** Accept only signed business property statements.

The statements referred to are an exact copy of the business property statements. It is our policy to return unsigned copies to the taxpayer and retain the original. In almost all instances, the information obtained is sufficient to make a fair and accurate assessment. To return all unsigned forms would not only slow the assessment of personal property at a very busy time of year, it would put an unnecessary burden on the taxpayers and accountants.

**Recommendation 12:** Revise business equipment valuation procedures by: (1) using Assessor's Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended; (2) assessing all personal property in apartments; and (3) classifying wind machines as fixtures.

1) It is our opinion that the minimum percent good factors as developed by the California Assessor's Association Business Property Subcommittee are more accurate and reflect "real world" conditions. We will continue to utilize the CAA tables and hope that BOE will strive to work together with the CAA. 2) Of the 16 apartment complexes found by the BOE, we are currently assessing personal property in 9 of them. We shall be sending business questionnaires to the remaining 7 for the 2006 assessment year. 3) We are currently in the process of reclassifying wind machines from structural improvements to fixture improvements.